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## The Southland Corporation 1969 Annual Report

### Corporate Data

**Stock Transfer Agents:**

First National Bank in Dallas, Dallas, Texas  
The Chase Manhattan Bank, N. A., New York City

**Stock Registrars:**

Texas Bank & Trust Company of Dallas, Dallas, Texas  
First National City Bank, New York City

**Trustee, Registrar and Paying Agent****5½% Convertible Subordinated Debentures:**

The Chase Manhattan Bank, N. A., New York City

**Common Stock Traded:**

Over-the-Counter

**Annual Meeting:**

10 a.m., April 22, 1970  
Dallas Room, First National Bank in Dallas

**Mailing Address:**

P. O. Box 719, Dallas, Texas 75221

**Telephone:**

214 / 824-8121

### Table of Contents

2	The Southland Corporation Today
4	Financial Highlights
5	Letter to Stockholders
8	Southland Expansion in 1969 <i>A Company Growing Places</i>
12	Ten Years of Growth
14	Four Decades of Growth
16	The Past Decade and the Future <i>Review of Operations</i>
18	Store Operations
22	Dairy Operations
24	Chemical / Speciality / Ice <i>Financial Statements</i>
26	Consolidated Balance Sheet
28	Statement of Consolidated Earnings
29	Statement of Consolidated Stockholders' Equity
30	Statement of Consolidated Source and Application of Funds
31	Notes to Financial Statements
33	Directors and Officers

# The Southland Corporation Today

The Southland Corporation is the nation's largest operator and franchisor of convenience food stores and a major processor and distributor of dairy products. The company's stores, dairies and ice operations, together with its Chemical and Speciality Divisions, extend to 38 states, the District of Columbia and three provinces of Canada.

The over-lay of the map fold-out on the following page indicates the geographic locations of Southland's diversified operations.

### Map Key

#### Store Operations:

- 7-Eleven Stores
- Barricini Candy Shops
- Gristede's and Charles & Co. Stores and Shops
- Bradshaw's Supermarkets

These color-coded dots indicate the locations of Southland's 3,810 stores.

#### Dairy Operations:

- A Adohr Farms
- C Cabell's
- E Embassy
- H Harbisons
- M Midwest Farms
- O Oak Farms
- S Spreckels
- V Velda Farms
- W Sidney Wanzer & Sons, Inc.

These letter-keyed symbols indicate the states in which each of Southland's nine dairy divisions has distribution, and the symbols are sized according to volume by states by dairies.

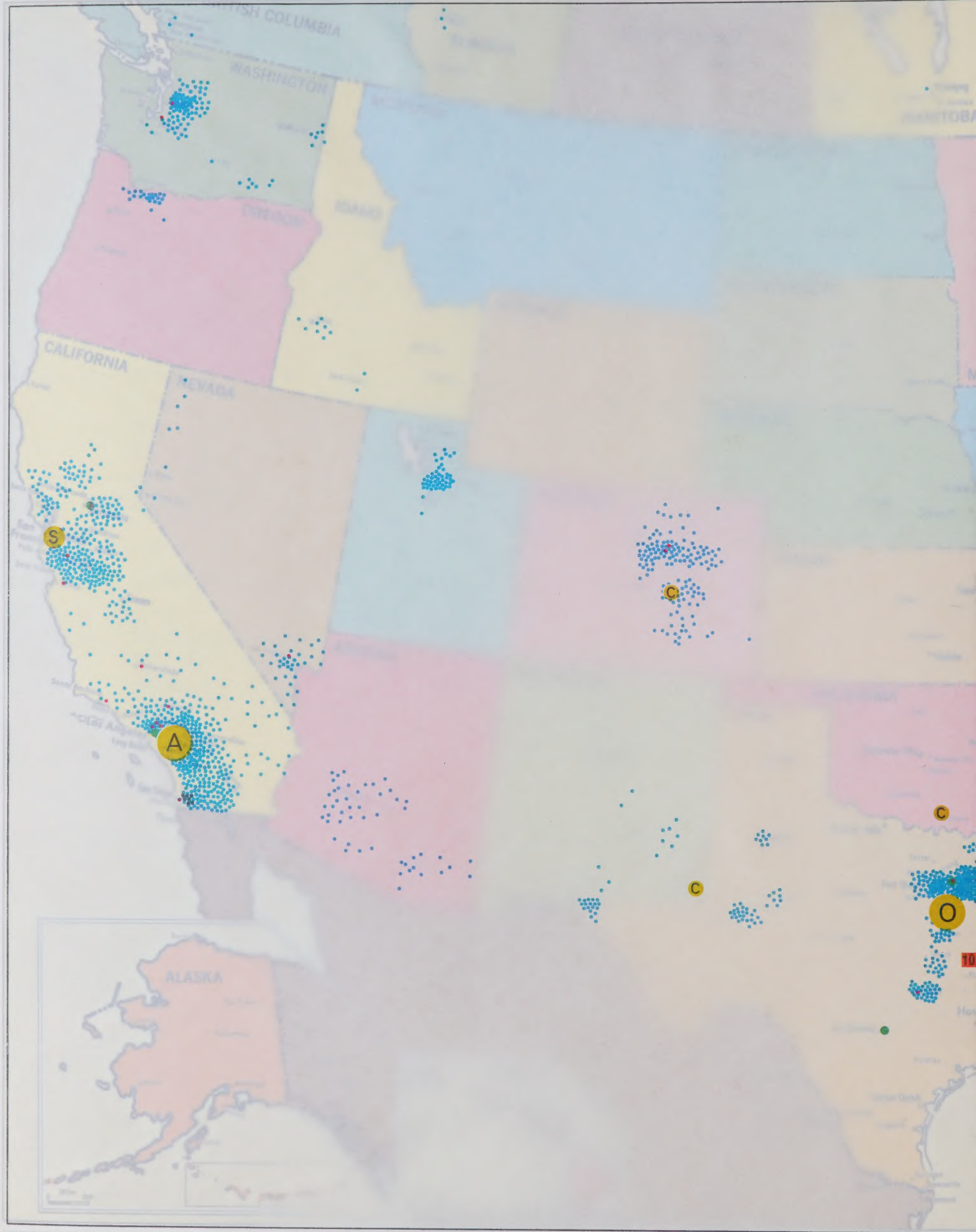
#### ● Chemical Division

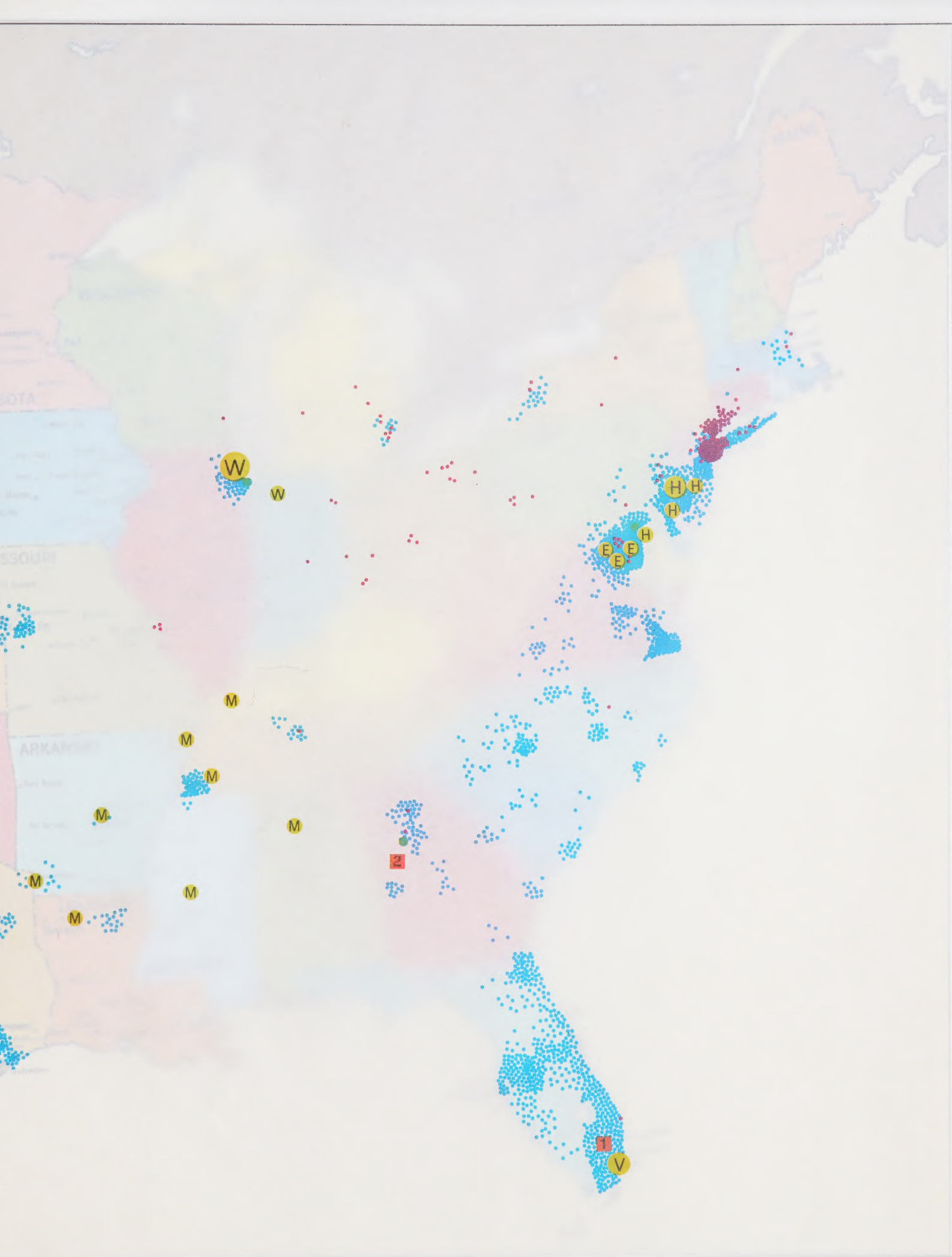
#### ■ Ice Operations

These dots indicate the location of chemical plants and facilities, and the squares indicate the states in which Southland has ice operations.



















## Financial Highlights

For The Year	Year ended December 31	
	1969	1968
Total Revenues .....	\$826,462,439	\$622,044,058
Earnings Before Extraordinary Item .....	\$ 12,053,470	\$ 9,345,797
Extraordinary Item .....	380,914	—
Net Earnings .....	\$ 12,434,384	\$ 9,345,797
Per Share*		
Earnings Before Extraordinary Item .....	1.57	1.36
Extraordinary Item .....	.05	—
Net Earnings .....	1.62	1.36
Cash Dividends .....	\$ 1,795,594	\$ 1,557,096
At Year-End		
Net Working Capital .....	\$ 76,690,357	\$ 56,629,452
Current Ratio .....	2.19 to 1	2.13 to 1
Long-Term Debt .....	\$ 96,385,504	\$ 62,118,725
Stockholders' Equity .....	\$ 95,011,550	\$ 77,017,840
Average Shares Outstanding .....	7,662,941	6,853,054
Book Value Per Share* .....	12.40	11.24
Number of Stockholders .....	8,079	7,457
Number of Employees .....	19,500	16,900
Annual Dividend Rate Per Share .....	.24	.24

\*Based on average number of shares outstanding during the period.



## To Our Stockholders

---

The year 1969 was the most profitable in the 42-year history of The Southland Corporation.

Total revenues were \$826,462,439, up 32.9% from last year's \$622,044,058. Once again our internal sales growth from 7-Eleven stores and from dairy operations exceeded 17%, with the acquisitions made late in 1968 and during 1969 contributing the balance of the substantial increase.

Net earnings from operations were \$12,053,470, a gain of 29% over 1968 net earnings of \$9,345,797. A \$380,914 extraordinary item of income, realized from the sale of a tract of undeveloped acreage in California, brought total net earnings to \$12,434,384, up 33% over 1968.

Per share earnings for the year were \$1.62, including five cents from the extraordinary item, computed on the basis of 7,662,941 average shares outstanding. This compares with 1968 per share earnings of \$1.36 based on average shares outstanding of 6,853,054, as adjusted for the 3% stock dividend paid in 1969.

In keeping with our philosophy of growth, Southland continued to reinvest a major portion of its earnings in the company. Cash dividends paid during the year

amounted to \$1,795,594, compared to \$1,557,096 in 1968. In addition, a 3% stock dividend amounting to 221,455 shares was paid in November, 1969. There were 8,079 stockholders and 1,176 debenture holders at year-end.

Total capital expenditures reached a record \$60 million this past year. The proceeds from the company's public offering on March 11, 1969, of \$40 million of 5½% Convertible Subordinated Debentures were used to finance the major portion of these capital outlays. The sale and lease-back of new stores for \$16.8 million supplemented our real estate financing program.

In their first full year as divisions of The Southland Corporation, the Gristede's stores in the Greater New York City area and the Sidney Wanzer & Sons, Inc. dairy in Chicago, each contributed record sales and significant profits.

In July, Southland entered a new industry with the purchase of the Barricini candy companies, headquartered in New York City. Barricini's fine candies are distributed through 145 of its own shops, located in some 50 major





cities, and through approximately 1,300 drug store, department store, gift shop and supermarket outlets from coast to coast.

Although Barricini sales have increased slightly since the acquisition, a small loss, as anticipated, did occur, principally as the result of inventory adjustments, provision for write-off of products containing cyclamates and non-recurring costs incident to assimilating its operations into the company.

Merchandising plans are now being developed to increase the sale of Barricini products through its own shops, Gristede's stores, 7-Eleven stores and other retail and wholesale outlets. We are confident that future sales and profits of this division will be substantially improved.

Southland had a net gain of 619 stores during the year, including the 145 Barricini candy shops, bringing total stores in operation at year-end to 3,810.

In 1969 our dairy operations were materially improved and strengthened by completion of the ultra-modern

Adohr Farms milk processing plant and distribution facility near Los Angeles.

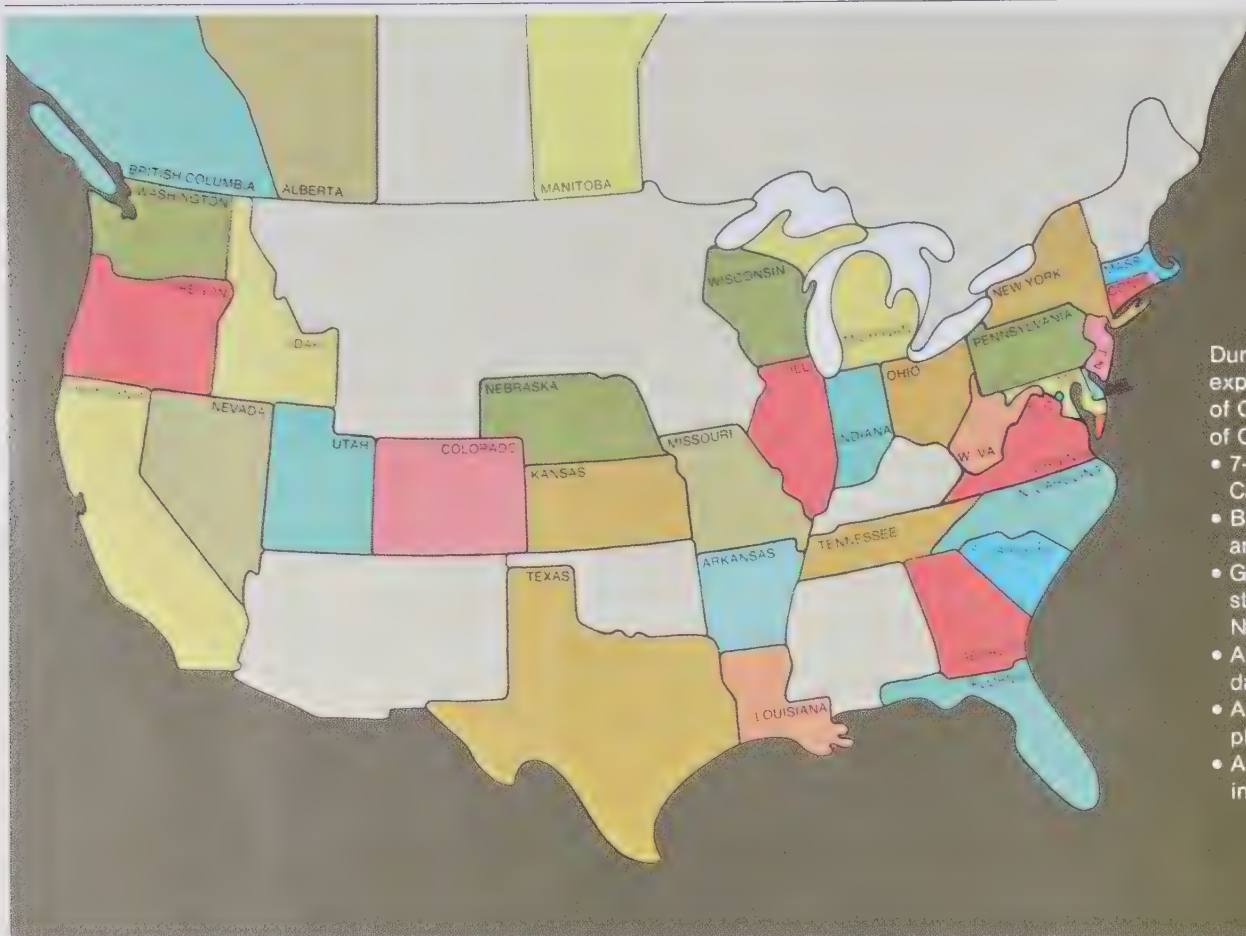
A new fully-automated Reddy Ice plant and a new modern-equipped facility for the preparation and distribution of Smiley's sandwiches and salads were opened in Fort Lauderdale, Florida, to serve our stores and other retail outlets in the Florida Gold Coast area.

As a result of extensive research and in-depth cost studies, Southland plans to establish its own merchandise distribution centers on a regional basis. We believe that by creating and operating our own warehouses and distribution system, Southland can more effectively meet the day-to-day stock requirements of its stores and minimize the growing complexities of mass distribution to small retail outlets. This program of computerized control of inventory and distribution should prove to be one of the most significant forward steps in Southland's history.

To finalize and implement this important program, we have obtained the services of qualified and experienced men in the field of mass

**John P. Thompson**, *right*, chairman of the board and chief executive officer; and **H. E. Hartfelder**, president.

Southland Expansion in 1969



During the year, Southland's expansion, in 32 states, the District of Columbia and three provinces of Canada, included:

- 7-Eleven stores in 27 states and Canada.
- Barricini candy shops in 22 states and the District of Columbia.
- Gristede's and Charles & Co. stores and sandwich shops in New York.
- A new ultra-modern Adohr Farms dairy plant in California.
- A new fully-automated Reddy Ice plant in Florida.
- A new Smiley's sandwich plant in Florida.

State or Province	7-Eleven	Barricini	Other	State or Province	7-Eleven	Barricini	Other
Arkansas	2			New Jersey	25	9	
California	93	18	*	New York	36	52	***
Colorado	25	2		North Carolina	16	1	
Connecticut	3	2		Ohio		13	
Delaware	2			Oregon	8		
District of Columbia		1		Pennsylvania	15	8	
Florida	17	1	**	South Carolina	6		
Georgia	24	2		Tennessee	12	1	
Idaho	16			Texas	32	5	
Illinois	9			Utah	6		
Indiana		4		Virginia	62	2	
Kansas	3			Washington	17	2	
Louisiana	4			West Virginia	2		
Maryland	36	4		Wisconsin		1	
Massachusetts	2	3		Alberta	3		
Michigan	9	9		British Columbia	3		
Missouri	5	3		Manitoba	1		
Nebraska		1					
Nevada		1					

\*Adohr Farms dairy plant.  
\*\*Reddy Ice and Smiley's sandwich plants.  
\*\*\*Six Gristede's and Charles & Co. stores.



retail distribution and computer technology. The next phase of the program is the opening, early in 1970, of an experimental distribution center in Orlando, Florida.

During 1969, Southland's Training Center revised and extensively broadened its course materials, visual aids and presentation techniques. The Center, established in Dallas late in 1968, trains the company's stores and dairies management and supervisory personnel on a continuing basis and prepares them for positions of greater responsibility in the future. Case studies and simulated computer models embracing a wide range of operational problems are two of the many advanced training aids utilized in the program.

The Center also directs 12 divisional store training schools, as well as designing specific training programs for dairy personnel and for franchised store owners.

Southland's record-breaking sales and profits, achieved during a period of rapidly rising costs and ever-increasing competition, make us proud indeed of our employee family of more than 19,000 men and women. We deeply appreciate their loyalty and important contribution to the company's growth and success.

We look forward with confidence to Southland's continued growth in this new decade and anticipate being very near our first billion dollar year in 1970.

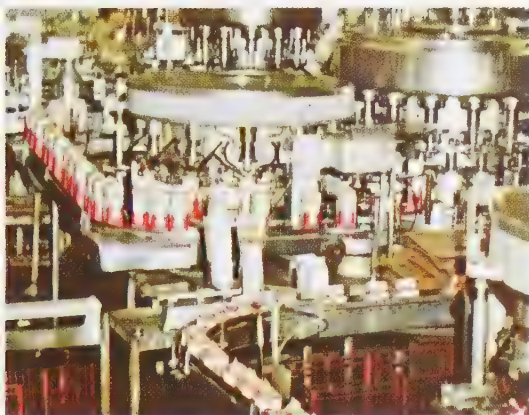
Very truly yours,



John P. Thompson, Chairman



H. E. Hartfelder, President



*Top:* Milk filling operations at Sidney Wanzer & Sons, Inc., of Chicago. Wanzer's became Southland's ninth dairy division in January, 1969



*Bottom:* A display of Barricini's fine candies. The Barricini candy companies became a part of Southland in July, 1969.



*Right: Jere W. Thompson, vice president of store operations.*

*Left: M. T. Cochran, Jr., vice president of dairy operations.*

*Lower left: Clifford W. Wheeler, vice president of new areas; Walton Grayson, III, vice president and general counsel; Joseph S. Hardin, vice president of planning and development.*

*Lower right: J. B. Langford, corporate secretary; W. K. Ruppenkamp, treasurer; and R. G. Smith, controller.*





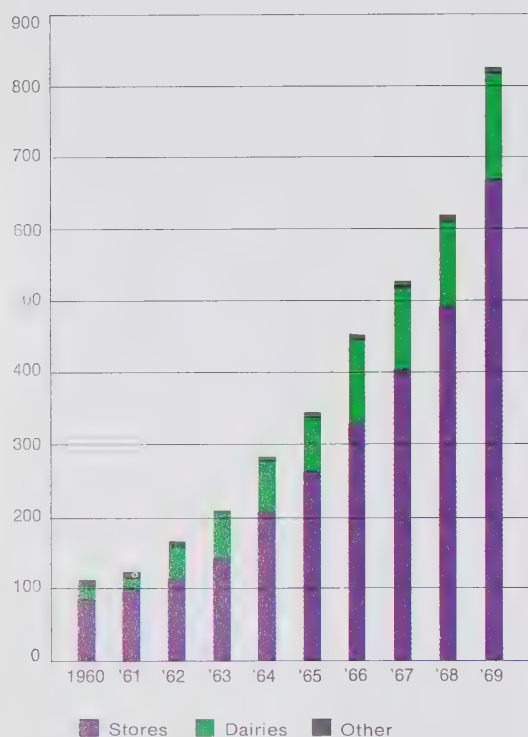


**A Company Growing Places**

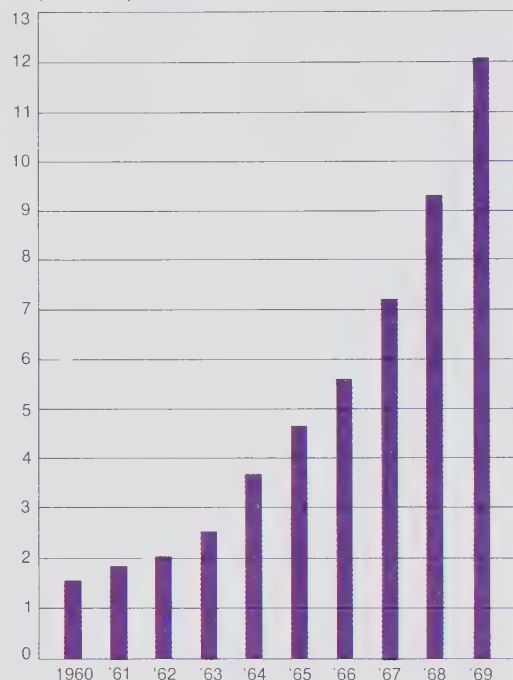
## Ten Years of Growth

### The Southland Corporation and Subsidiaries

**Total Revenues**  
In Millions

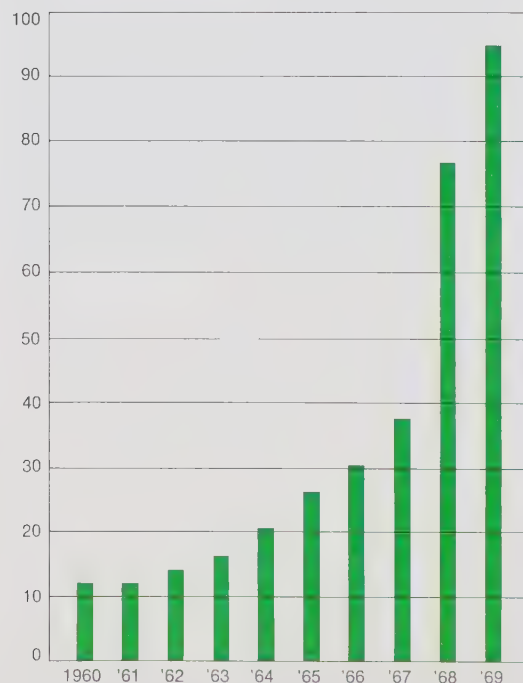


**Net Earnings (After Tax)**  
(Before Special Items) In Millions



	1960
Total Revenues*	\$ 114,360
Net Earnings (Note 2)*	1,586
Net Working Capital*	5,970
Property, Plant & Equipment (Net)*	11,251
Long-Term Debt*	5,178
Stockholders' Equity*	12,000
Cash Dividends (Note 4)	376,469
Average Shares Outstanding (Note 3)	5,425,248
Number of Stockholders (Note 4)	317
*(000 Omitted)	
Per Share of Common Stock (Note 3):	
Net Earnings	.29
Cash Dividends (Note 4)	.07
Book Value	2.21
Earnings as a percent of Stockholders' Equity	13.22

**Stockholders' Equity**  
In Millions



#### Notes:

(1) Includes The Southland Corporation and subsidiaries. Data for businesses acquired under the pooling of interests concept have been included for years prior to their acquisition by The Southland Corporation.

(2) Net earnings include special items of \$393,000 (deduction) in 1961, \$520,000 (addition) in 1967 and \$380,914 (addition) in 1969.



	1961	1962	1963	1964	1965	1966	1967	1968	1969
\$	127,511	\$ 164,762	\$ 209,912	\$ 282,535	\$ 342,633	\$ 450,076	\$ 527,488	\$ 622,044	\$ 826,462
	1,464	2,034	2,563	3,694	4,690	5,632	7,734	9,346	12,434
	5,283	4,799	8,615	28,496	33,020	41,248	41,056	56,629	76,690
	11,902	14,986	20,387	22,333	24,109	43,534	63,374	90,331	125,761
	5,728	6,118	12,787	30,163	30,122	51,382	61,990	62,119	96,386
	11,926	14,070	16,294	20,507	26,171	30,776	37,994	77,018	95,012
	396,786	764,921	888,112	1,081,113	1,105,768	1,249,592	1,342,085	1,557,096	1,795,594
5,430,743	5,534,161	5,645,829	5,760,392	5,911,193	6,013,951	6,062,033	6,853,054	7,662,941	
	329	376	514	980	1,228	2,111	2,816	7,457	8,079
	.27	.37	.45	.64	.79	.94	1.28	1.36	1.62
	.07	.14	.16	.19	.19	.21	.22	.23	.23
	2.20	2.54	2.89	3.56	4.43	5.12	6.27	11.24	12.40
	12.28	14.46	15.73	18.01	17.92	18.30	20.36	12.13	13.09

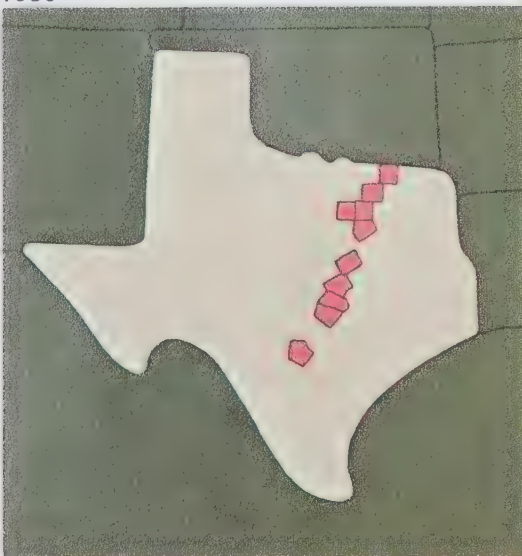
(3) Calculations of per share information are based upon the average number of shares outstanding during the respective years after giving effect to subsequent stock dividends, stock splits and shares issued in exchange for businesses acquired under the pooling of interests concept.

(4) Cash dividends and number of stockholders relate to the parent company only.

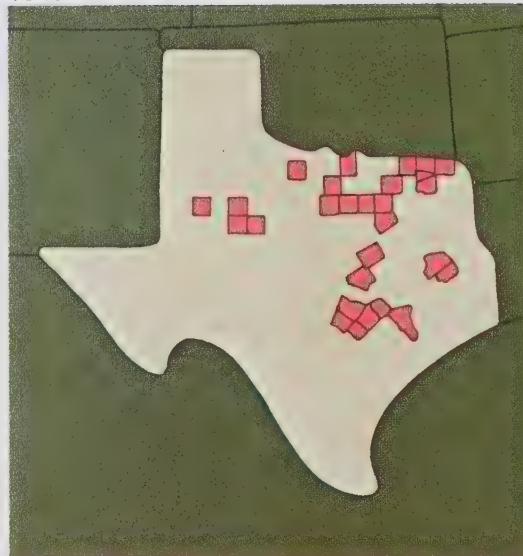
## Four Decades of Growth

1959

1939



1949



**1939 — \$2,039,667**

At the end of 1939, Southland had operations in 10 counties of Texas.

**1949 — \$15,783,982**

At the end of 1949, Southland had operations in 29 counties of Texas.

**1959 — \$97,634,849**

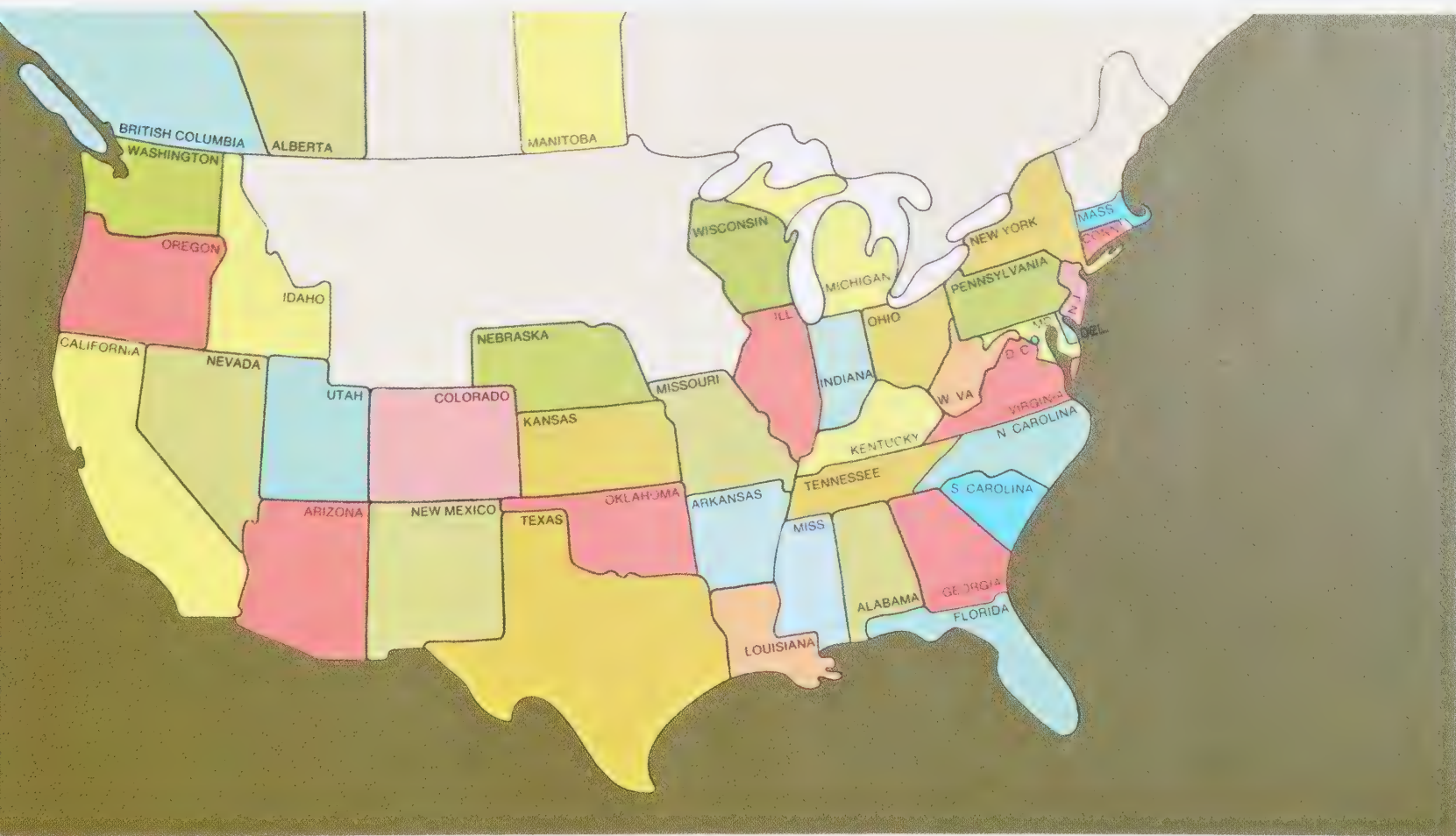
At the end of 1959, Southland had operations in five states and the District of Columbia.

**1969 — \$826,462,439**

At the end of 1969, Southland had operations in 38 states, the District of Columbia and three provinces of Canada.

1969





# The Past Decade and the Future

As illustrated by the maps on the preceding pages, The Southland Corporation has enjoyed continuous growth over the past four decades, but the company's most rapid and significant progress and expansion has occurred during the past ten years.

Briefly, during the 1960's—

Southland achieved a compounded average annual revenues growth of 23.8%.

\* Southland achieved a compounded average earnings growth of 19.9%.

\* Southland increased net investment in property, plant and equipment from \$11.1 million to \$125.7 million.

\* Southland increased stockholders' equity from \$10.9 million to \$95.0 million.

\* Southland paid cash dividends totaling \$10.5 million.

While it is not possible to predict accurately the general economic conditions for the 1970's, we believe that Southland's philosophy of business, which stimulated its aggressive growth in the past, will enable the company to meet the challenges of the future.

Evolving patterns in family life and urban living, and the increasing importance of time to the individual, have created an accelerated demand for fast convenient shopping.

Over the years your company has constantly reviewed its merchandising programs, products and services to meet the changing desires and needs of the customer, and management is dedicated to providing the products and services tomorrow's customer will require.

While market conditions in the dairy industry continued to show improvement during 1969, we are particularly enthusiastic about our potential for continued growth in the convenience store field. It has been estimated that this segment of the food industry has approximately 10,000 stores in operation today with sales of about \$2 billion and that there will be more than 20,000 stores in operation by 1975 with sales approaching \$4 billion.

With these favorable growth prospects and based on our history of achievement, we in Southland feel confident that our position of leadership in the merchandising field will be maintained.





## Review of Operations

## Store Operations

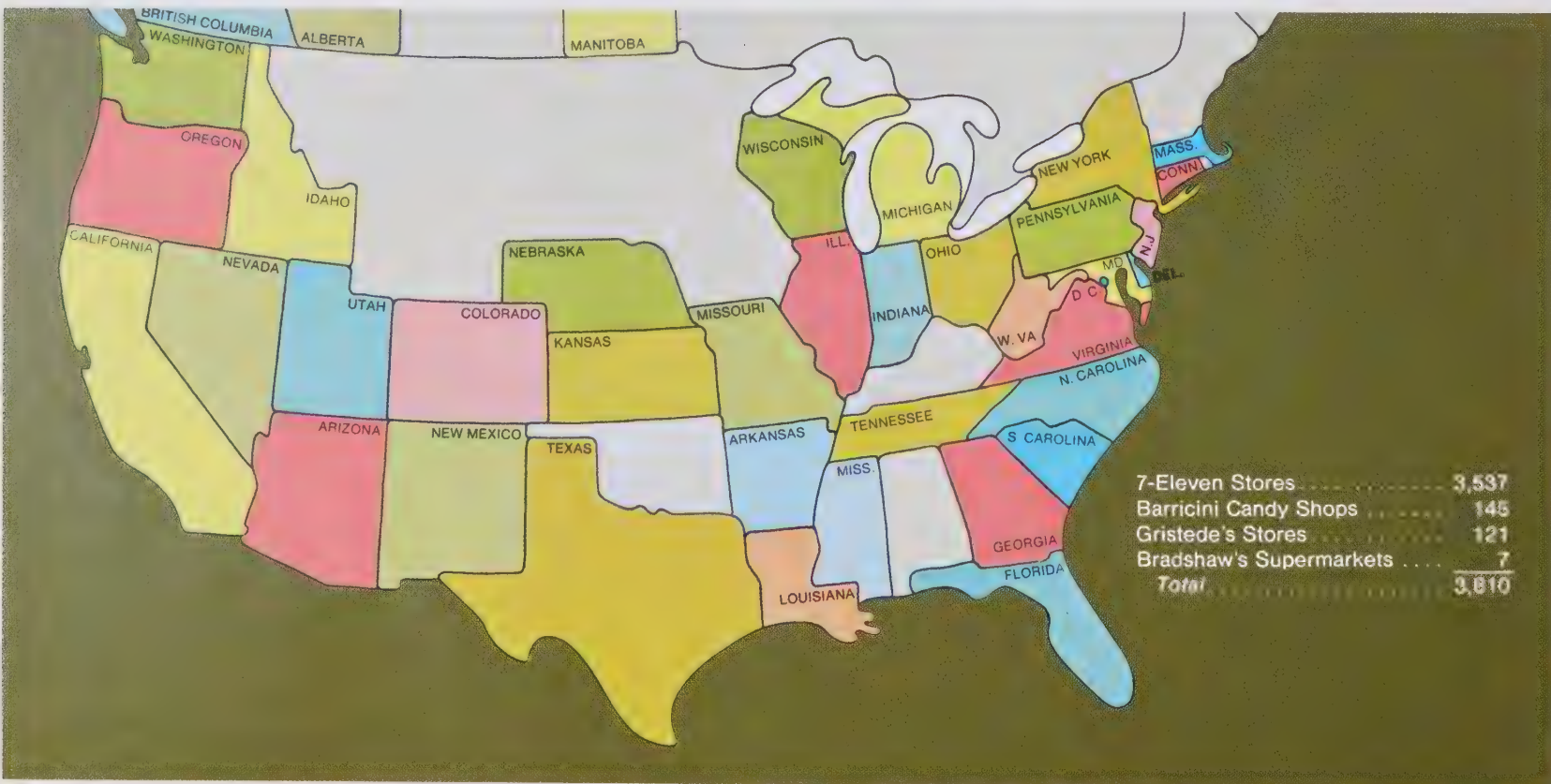


The Store Divisions' sales for the year were at an all-time high of \$672,809,923, up 35% over 1968, and accounted for 81% of total corporate revenues.

The average per store sales of our 7-Eleven stores continued to show improvement, and they contributed 21% of the sales increase over last year. In its first full year as part of



Southland's store operations—including Barricini candy shops, Bradshaw's supermarkets, Gristede's stores and 7-Eleven stores—extend to 35 states, the District of Columbia and three provinces of Canada, as shown on the map below.





Southland, the Gristede's prestige grocery chain, operating in the New York City metropolitan market, also made a significant contribution in setting the new sales record.

During the year, 469 7-Eleven stores were opened, including Southland's first stores in Canada, Connecticut and Idaho. The seven Canadian stores are in the metropolitan areas of Calgary, Vancouver and Winnipeg.

In California, 93 new stores were opened during 1969, bringing the total to 615 7-Eleven stores, the greatest number in any state. Texas ranks second with 545, and Florida third with 536.

There were 3,537 7-Eleven stores in operation in 31 states, the District of Columbia and Canada at December 31.

With the acquisition of the Barricini candy companies by Southland in July, 1969, 145 Barricini candy shops in 22 states and the District of Columbia became part of store operations.

Barricini candy, which is manufactured at the company's plant in Long Island City, New York, is also distributed through approximately

1,300 drug store, department store, gift shop and supermarket outlets across the nation.

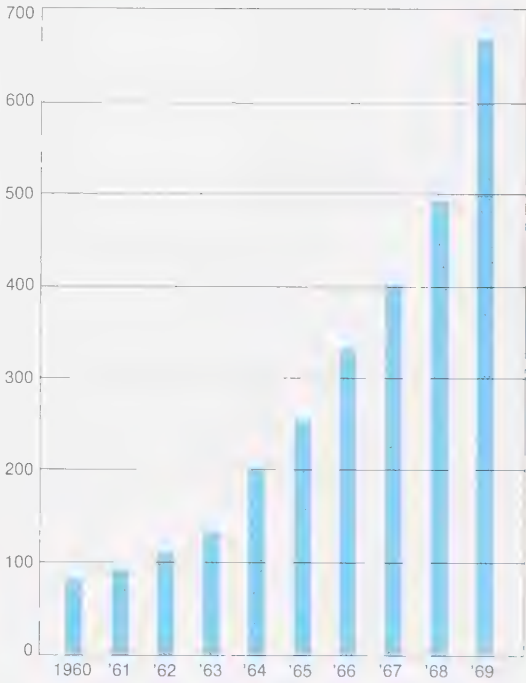
Gristede's and the Charles & Co. stores and sandwich shops had the best year in their 78-year history. Six new outlets were opened during 1969, bringing the total to 121 at year-end.

In San Diego, the Bradshaw's supermarket operations had seven stores open at year-end.

At December 31, there were 3,810 7-Eleven stores, Gristede's stores, Barricini shops and Bradshaw's supermarkets operating in 35 states, the District of Columbia and Canada.

The company's program of extensively modernizing its older 7-Eleven stores, started in 1968, was continued throughout 1969 with another 541 stores being completely remodeled and air-conditioned.

Store Sales  
In Millions





At year-end, 1,286 7-Eleven stores, or 36% of our total convenience stores, were operated by independent franchisees. The increase in franchised stores for the year was 397, of which 237 were converted from company-operated stores and 160 were newly-constructed franchise stores.

During 1969, three 7-Eleven stores were opened in Saginaw, Michigan, and one in Pittsburgh, Pennsylvania, under area franchises granted during late 1968 and early 1969. Also, two 7-Eleven stores were opened in McAllen, Texas, under an area franchise granted during the year.



*Before and after:* The new look for 7-Eleven stores after extensive modernization and air conditioning, as contrasted to the old, is shown here by these before and after pictures of a 7-Eleven store in Fort Worth, Texas. Five hundred and forty-one stores were completely remodeled and air conditioned in 1969.



The corporate merchandising staff was expanded during 1969 to provide continuing research on customer preferences and shopping habits, to select and promote new products and services and to increase the sale of regular items.

To meet the changing trend in family shopping, many 7-Eleven stores expanded their selection of delicatessen items, sandwiches and other take-out and quickly-prepared convenience foods. In cooperation with one of the nation's largest food firms, a new micro-wave oven method of preparing fried chicken is being tested in the Roanoke, Virginia, area. Indications are that this type of chicken may prove to be a very popular new take-out food. We expect this item and a select variety of other fast-food products to be available in other of our stores in 1970.

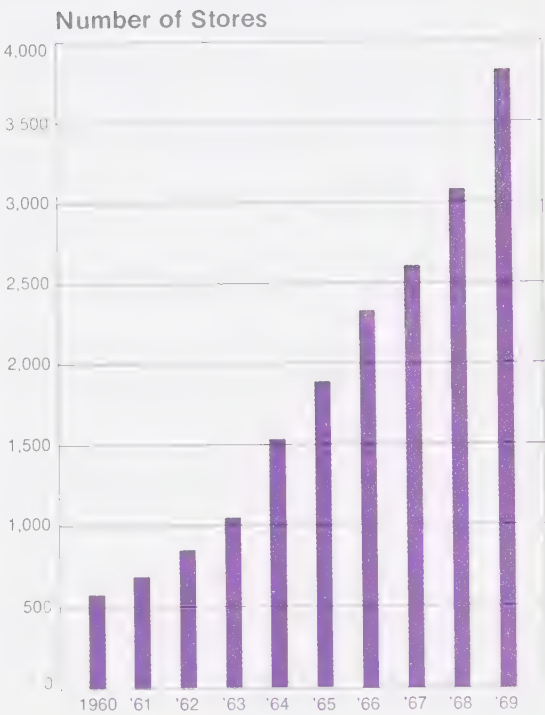
Southland's new Smiley's sandwich plant in Fort Lauderdale, Florida, has a daily output of 15,000 pre-packaged sandwiches in 25 varieties which are sold through 225 7-Eleven stores and to more than

150 other outlets in the area. Based on the success of this operation, similar facilities are planned for other areas.

7-Eleven stores in the San Diego area are presently testing a convenient and rigidly-controlled film processing service which will be evaluated for possible expansion to other areas.

The availability of self-service gasoline at 59 7-Eleven stores in six states offers an additional service to our customers.

Store site selection is one of the most important factors in assuring the continued success of our vigorous store expansion program. Thirty-seven full-time division real estate representatives survey and compile pertinent information on population trends, housing developments, neighborhood economy and traffic flow for each potential store site. This information is analyzed by Southland's corporate real estate staff to determine potential sales volume prior to management's final approval or rejection of the site. In addition, a sophisticated computer program is being developed to further assist management in this evaluation.

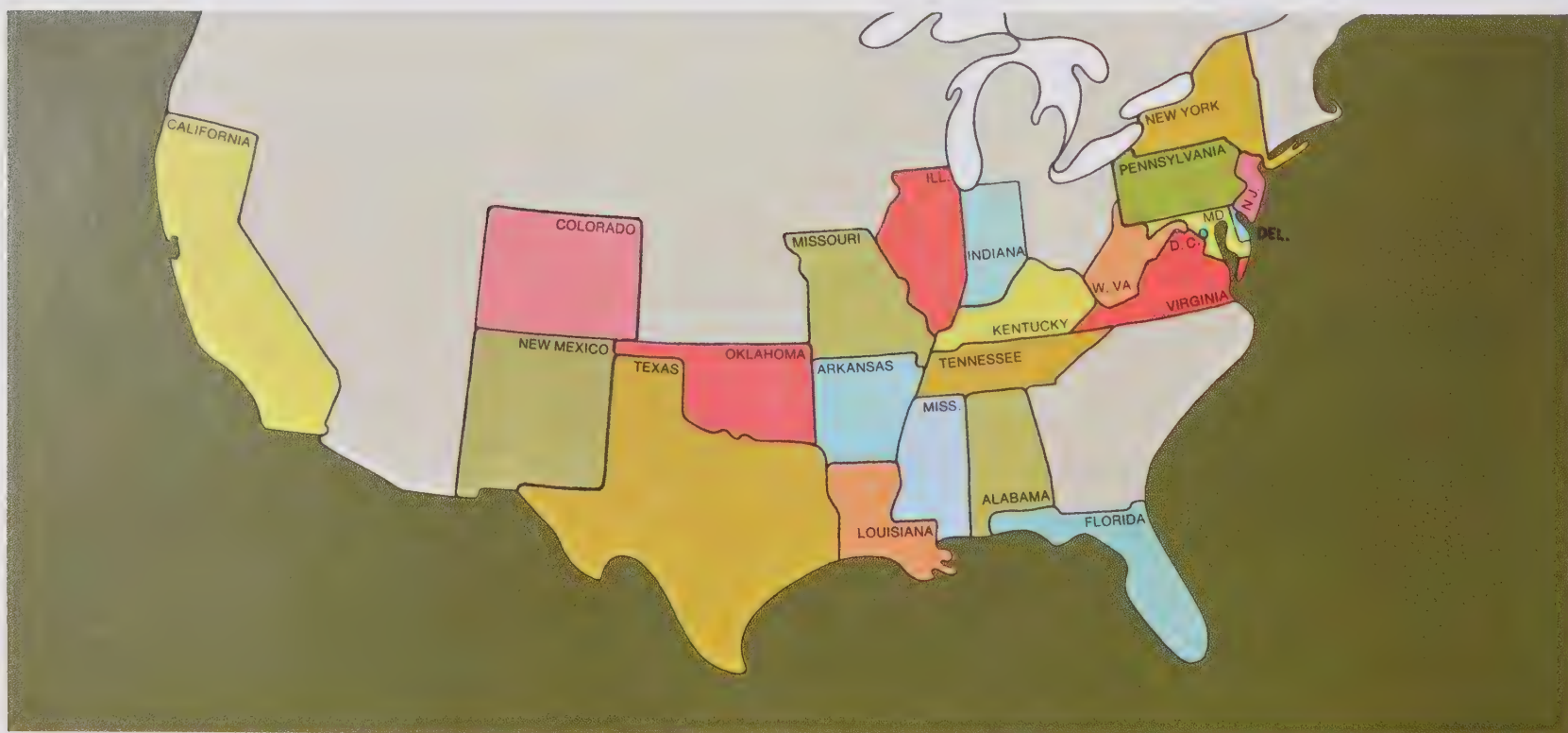


## Dairy Operations



The Dairy Divisions' sales for the year, including intercompany sales, reached an all-time high of almost \$200 million, with operating profits up 19% over 1968. This excellent increase in operating profits is the result of additional sales volume and Southland's continuing efforts to effect economies and improve efficiencies in the processing and distribution of its dairy products. Contributing a major portion of the increase in sales volume was Sidney Wanzer & Sons, Inc., of Chicago, which was acquired by Southland January 2, 1969.

Southland's dairy operations extend to 22 states and the District of Columbia, as shown on the map below. There are nine dairy divisions of Southland: Adohr Farms, Cabell's, Embassy, Harbisons, Midwest Farms, Oak Farms, Spreckels, Velda Farms and Sidney Wanzer & Sons, Inc.





Our largest dairy capital expenditure in 1969 was for the new Adohr Farms milk processing plant in Orange County, California. This ultra-modern plant, opened in May, has the capacity to process more than 100,000 gallons of milk a day and is an important addition to our West Coast dairy operations. Additionally, the milk plant at South Gate, California, was completely remodeled, giving Adohr Farms two highly-automated processing plants to serve the growing Southern California market.

Southland's nine Dairy Divisions are: Harbisons in Philadelphia and adjacent areas; Embassy in Washington, D. C. and nearby states; Velda Farms in Florida; Midwest Farms in Tennessee and surrounding states; Oak Farms in Texas; Cabell's in Texas, Oklahoma and Colorado; Spreckels in San Francisco and Northern California; Adohr Farms in Los Angeles and Southern California; and Wanzer's in Chicago.

The company's dairies process and distribute milk, ice cream and related products through 30 processing plants and 87 principal distribution centers in 22 states and

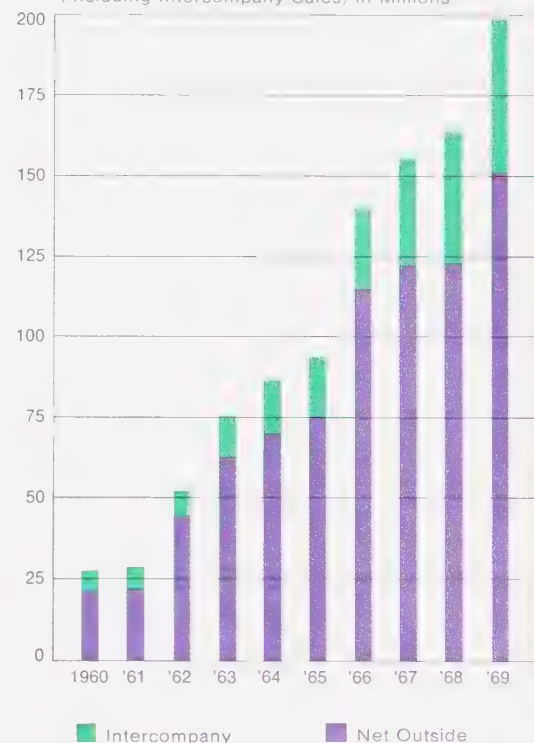
the District of Columbia.

Dairy promotions during 1969 included the successful "Ice Cream's Back" campaign, which contributed to a 9% increase in sales of ice cream and related products. Southland's dairies continued their successful promotional tie-ins with their local professional, university, college and high school football teams.

Initial plans are being formulated to manufacture a complete line of yogurt, sour creams, dips and sterile creams, which will be featured in sales campaigns late in 1970. Also this year, our dairies will introduce a complete line of low-fat products—milk, cottage cheese, yogurt and ice milk—to be merchandised in new and distinctively-designed packages.

## Dairy Sales

(Including Intercompany Sales) In Millions



**Chemical / Speciality / Ice**

Southland's Chemical Division, although still a small part of our total operations, continues to grow in sales and profit volume. This division was started in 1965, and its sales for the year, including intercompany sales, were \$3,560,387, up 23% over 1968. The Chemical Division continued to develop new products and to expand its existing line of cleaning compounds, sanitizing agents, lubricants, food stabilizers, flavor concentrates and other specialty chemical products which are sold to the dairy, candy, baking, brewing, bottling and general food processing industries.

Headquartered in Dallas, the Chemical Division has additional facilities in Houston, San Antonio and Los Angeles and has sales offices in four other cities. An East Coast facility is planned for 1970.

The Specialty Division, established in 1968 to serve our dairy operations, manufactures various blow-molded plastic containers for Southland's dairy operations in the Southwest. In 1970, the division will begin supplying plastic containers to our West Coast dairies and to outside customers. It also provides our dairies with bags, sticks and flavors used in the manufacture of ice cream bars and other dairy novelties.

Record sales and profits were achieved by our ice operations with total sales, including intercompany sales, reaching \$3,380,493, an increase of 36% over 1968.

To meet the steadily growing demand for bagged ice, Southland in 1968 began an extensive plant expansion and modernization program of its older ice facilities.

A new and fully-automated Reddy Ice plant was opened in Fort Lauderdale, Florida, in March, 1969, and produced more than one million bags of ice in its first nine months of operation. Production of this 12,000 square foot plant will be doubled in 1970 to meet increasing consumer demand in the Florida Gold Coast area.



Capacity of the Dallas ice plant was increased substantially early in 1969, and a record 190 tons per day was produced during the summer months. At the present time the plant is undergoing further expansion.

The Houston ice plant, remodeled late in 1968 to increase its production, is again being enlarged to fill the demand for Reddy Ice in the Gulf Coast market.

*Left:* Acid storage tanks at the Chemical Division's main plant in Dallas, Texas.

*Right:* Packaged Reddy Ice in Southland's new ice plant at Fort Lauderdale, Florida.







## Financial Statements

Consolidated Balance Sheet  
The Southland Corporation and Subsidiaries

Assets

	December 31 1969	December 31 1968
Current Assets:		
Cash	\$ 29,418,865	\$ 19,340,309
Cash investments	5,726,733	4,995,493
Accounts and notes receivable (Note 2)	34,639,250	26,174,354
Inventories, at the lower of cost or market	39,499,808	33,570,447
Deposits and prepaid expense	8,222,607	5,659,820
Investment in property (Note 3)	23,685,832	17,085,192
Total Current Assets	\$141,193,095	\$106,825,615
Investments and Other Assets	1,164,271	638,780
Property, Plant and Equipment, net (Notes 4 and 5)	125,761,464	90,331,203
	\$268,118,830	\$197,795,598
See notes to financial statements.		



Liabilities and Stockholders' Equity

	December 31 1969	December 31 1968
Current Liabilities:		
Long-term debt due within one year	\$ 5,673,598	\$ 5,361,566
Accounts payable and accrued expense	56,805,578	43,109,938
Federal income tax	2,023,562	1,724,659
Total Current Liabilities	\$ 64,502,738	\$ 50,196,163
Deferred Credits (Note 6)	11,156,269	7,586,160
Reserves for Self Insurance	1,062,769	876,710
Long-Term Debt, due after one year (Note 5)	96,385,504	62,118,725
Stockholders' Equity (Notes 5 and 7):		
Common stock, \$.01 par value, authorized 20,000,000 shares, issued and outstanding 7,752,810 shares in 1969, and 7,180,405 shares in 1968	\$ 77,528	\$ 71,804
Additional paid-in capital	70,436,100	56,013,638
Earnings retained in the business	24,497,922	20,932,398
	\$ 95,011,550	\$ 77,017,840
Contingencies and Commitments (Note 8)	\$268,118,830	\$197,795,598

See notes to financial statements.

**Statement of Consolidated Earnings**  
**The Southland Corporation and Subsidiaries**

	Year ended December 31	
	1969	1968
<b>Revenues:</b>		
Net sales (including franchised stores) . . . . .	\$825,073,000	\$621,114,512
Interest and other income . . . . .	<u>1,389,439</u>	<u>929,546</u>
	<u>\$826,462,439</u>	<u>\$622,044,058</u>
<b>Cost of Sales and Expenses (Note 12):</b>		
Cost of sales and expenses exclusive of items listed below . . . . .	\$750,507,610	\$563,465,682
General and administrative expenses . . . . .	5,395,437	4,617,486
Property and equipment rentals (Note 8) . . . . .	27,314,655	22,046,415
Depreciation (Note 9) . . . . .	10,315,543	6,297,085
Interest expense . . . . .	4,580,234	4,063,243
Contributions to employees' savings and profit-sharing fund . . . . .	<u>2,795,490</u>	<u>1,958,350</u>
	<u>\$800,908,969</u>	<u>\$602,448,261</u>
<b>Earnings Before Income Taxes and Extraordinary Item . . . . .</b>	<b>\$ 25,553,470</b>	<b>\$ 19,595,797</b>
<b>Income Taxes (Note 10) . . . . .</b>	<b><u>13,500,000</u></b>	<b><u>10,250,000</u></b>
<b>Earnings Before Extraordinary Item . . . . .</b>	<b>\$ 12,053,470</b>	<b>\$ 9,345,797</b>
<b>Extraordinary Item—Sale of real estate (net of income taxes of \$125,000) . . . . .</b>	<b><u>380,914</u></b>	<b><u>—</u></b>
<b>Net Earnings . . . . .</b>	<b><u>\$ 12,434,384</u></b>	<b><u>\$ 9,345,797</u></b>
<b>Primary Earnings Per Share (Note 11):</b>		
Before extraordinary item . . . . .	\$ 1.57	\$ 1.36
Extraordinary item . . . . .	<u>.05</u>	<u>—</u>
Net earnings . . . . .	<u>\$ 1.62</u>	<u>\$ 1.36</u>
<b>Earnings Per Share—Assuming full dilution (Note 11):</b>		
Before extraordinary item . . . . .	\$ 1.40	\$ 1.23
Extraordinary item . . . . .	<u>.04</u>	<u>—</u>
Net earnings . . . . .	<u>\$ 1.44</u>	<u>\$ 1.23</u>

See notes to financial statements.



**Statement of Consolidated Stockholders' Equity**  
**The Southland Corporation and Subsidiaries**

	Year ended December 31	
	1969	1968
<b>Common Stock:</b>		
Balance January 1 . . . . .	\$ 71,804	\$ 57,765
Exercise of stock options . . . . .	1,149	577
3% Stock dividend . . . . .	2,215	1,976
Miscellaneous adjustment . . . . .		(7)
Conversion of notes . . . . .	1,723	836
Proceeds from public stock offering . . . . .		7,500
Acquisitions . . . . .	637	3,157
Balance December 31 . . . . .	<u>\$ 77,528</u>	<u>\$ 71,804</u>
<b>Additional Paid-in Capital:</b>		
Balance January 1 . . . . .	\$ 56,013,638	\$ 16,894,723
Exercise of stock options . . . . .	1,246,449	778,526
3% Stock dividend . . . . .	6,980,373	7,782,002
Miscellaneous adjustment . . . . .		7
Conversion of notes . . . . .	3,648,277	1,699,164
Proceeds from public stock offering . . . . .		17,340,564
Acquisitions . . . . .	2,547,363	11,518,652
Balance December 31 . . . . .	<u>\$ 70,436,100</u>	<u>\$ 56,013,638</u>
<b>Earnings Retained in the Business:</b>		
Balance January 1 . . . . .	\$ 20,932,398	\$ 21,041,902
Net earnings for the year . . . . .	12,434,384	9,345,797
	<u>\$ 33,366,782</u>	<u>\$ 30,387,699</u>
<b>Less:</b>		
Cash dividends . . . . .	\$ 1,795,594	\$ 1,557,096
Cash paid in lieu of fractional shares . . . . .	90,680	114,227
3% Stock dividend . . . . .	6,982,586	7,783,978
	<u>\$ 8,868,860</u>	<u>\$ 9,455,301</u>
Balance December 31 . . . . .	<u>\$ 24,497,922</u>	<u>\$ 20,932,398</u>
<b>Total Stockholders' Equity (Notes 5 and 7) . . . . .</b>	<u><u>\$ 95,011,550</u></u>	<u><u>\$ 77,017,840</u></u>

See notes to financial statements.

# Statement of Consolidated Source and Application of Funds

The Southern Corporation and Subsidiaries

Year ended December 31, 1966

## Source of Funds

Proceeds from sale of assets	\$ 12,404,184
Depreciation	10,146,542
Depletion	1,579,109
Deferred income taxes and other items	\$ 26,025,036
Net income from operations	40,000,000
Dividend income	1,047,596
	<u>\$ 57,567,854</u>

## Application of Funds

Depreciation and depletion	\$ 11,721,217
Capital expenditures	795,534
Acquisition of new operating assets	90,596
Property, equipment and other non-current assets	40,000,000
Other items	116,413
Interest on long-term debt	20,140,905
	<u>\$ 57,567,854</u>

See notes to consolidated financial statements



TOUCHE ROSS & CO.

DALLAS FEDERAL SAVINGS BUILDING  
DALLAS, TEXAS 75201

Board of Directors and Stockholders  
The Southland Corporation  
Dallas, Texas

We have examined the accompanying consolidated balance sheet of The Southland Corporation and subsidiaries as of December 31, 1969, and the related statements of earnings, stockholders' equity, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements referred to above present fairly the consolidated financial position of The Southland Corporation and subsidiaries at December 31, 1969, and the consolidated results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Dallas, Texas  
February 23, 1970

*Touche Ross & Co.*





**Notes to Financial Statements**  
**The Southland Corporation and Subsidiaries**  
**Year ended December 31, 1969**

**NOTE 1—Principles of Consolidation:** The financial statements include the assets, liabilities, sales, and costs and expenses of all subsidiaries. Intercompany transactions have been eliminated in consolidation. Operations of businesses acquired in transactions accounted for as purchases have been included in consolidated earnings since acquisition. The more significant of such acquisitions are:

Company	Date of acquisition
Gristede Bros., Inc.	December 16, 1968
Sidney Wanzer & Sons, Inc.	January 2, 1969
Barricini Stores, Inc.	July 26, 1969

<b>NOTE 2—Accounts and Notes Receivable:</b>		1969	1968
Trade		\$ 22,389,882	\$ 16,293,375
Franchisee		12,913,098	9,606,725
Other		808,100	1,279,623
		<u>\$ 36,111,080</u>	<u>\$ 27,179,723</u>
Less allowance for doubtful accounts		1,471,830	1,005,369
		<u>\$ 34,639,250</u>	<u>\$ 26,174,354</u>

**NOTE 3—Investment in Property:** Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. Current working funds are used in the construction of new facilities and the Company expects that cash will be realized within a twelve month period for these assets.

<b>NOTE 4—Property, Plant and Equipment:</b>		1969	1968
<b>Cost:</b>			
Land		\$ 14,438,616	\$ 13,119,504
Buildings and leaseholds		52,300,287	36,857,791
Machinery and equipment		88,410,712	57,962,529
Vehicles		3,110,124	2,350,873
Construction in process		3,619,812	6,972,069
		<u>\$161,879,551</u>	<u>\$117,262,766</u>
Less accumulated depreciation		36,118,087	26,931,563
		<u>\$125,761,464</u>	<u>\$ 90,331,203</u>

**NOTE 5—Long-Term Debt:** At December 31, 1969, long-term debt and amounts due within one year were as follows:

	Amount outstanding	Current portion	Balance included in long-term debt
5¾% Promissory notes due 1976	\$ 20,625,000	\$ 3,437,500	\$ 17,187,500
4%—7½% Real estate notes	23,534,102	2,236,098	21,298,004
5% Convertible subordinated notes due 1984	7,250,000	—	7,250,000
5¾% Convertible subordinated notes due 1987	10,650,000	—	10,650,000
5½% Convertible subordinated debentures due 1989	40,000,000	—	40,000,000
	<u>\$102,059,102</u>	<u>\$ 5,673,598</u>	<u>\$ 96,385,504</u>

Approximately 25% of the net carrying value of property, plant and equipment is mortgaged. These real estate notes mature from 1970 to 1992.

The 5%, the 5¾% convertible notes, and the 5½% convertible debentures may, at the option of the holders, be converted at any time into common stock of the Company at the rates, respectively, of 52.19, 42.57 and 26.41 shares of stock for each \$1,000 of principal. As to the notes, these rates decrease to 45.93 and 40.47 shares on January 1, 1975 and December 1, 1977, respectively. At December 31, 1969, there were 1,888,149 shares of common stock reserved for the conversion of the notes and debentures. Principal payments are due annually beginning in 1975, 1978 and 1980, respectively, in amounts equal to 10% of the aggregate principal amount outstanding one year prior to the date of the first required payment.

The aggregate amounts of long-term debt maturities for the five years following December 31, 1969, are: 1970—\$5,673,598; 1971—\$5,705,959; 1972—\$5,679,641; 1973—\$5,763,162; 1974—\$5,601,481.

The agreements under which the promissory notes, the convertible notes and debentures were issued place certain restrictions on the payment of cash dividends. Under the most restrictive of these provisions, retained earnings totaling \$16,483,000 at December 31, 1969, were not so restricted. Other provisions of the agreements include requirements as to maintenance of working capital and net worth. The Company has complied with these requirements.

**NOTE 6—Deferred Credits:** For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over the useful life of the assets or the term of the leases, respectively.

Deferred federal income taxes result from the use of accelerated depreciation methods for tax purposes.

	Investment credit	Deferred federal income taxes	Other	Total
Balance January 1, 1969 . . . . .	\$ 3,050,463	\$ 4,013,310	\$ 522,387	\$ 7,586,160
Balances of companies acquired. . .	—	—	36,851	36,851
Provided for the year. . . . .	1,753,695	2,283,805	186,186	4,223,686
Taken into income. . . . .	(660,662)	—	(29,766)	(690,428)
Balance December 31, 1969 . . . . .	<u>\$ 4,143,496</u>	<u>\$ 6,297,115</u>	<u>\$ 715,658</u>	<u>\$ 11,156,269</u>

**NOTE 7—Stock Options:** At December 31, 1969, options for 205,552 shares of the Company's stock, at prices ranging from \$2.98 to \$39.32, were outstanding, of which 125,337 shares were exercisable. During 1969, 116,657 shares were issued upon exercise of options at prices ranging from \$2.23 to \$30.58; options were granted for 32,825 shares at prices ranging from \$30.58 to \$39.32 per share; and options for 9,600 shares expired or were cancelled.

An additional 88,707 shares are available for future grants under the employees' stock option plan.

**NOTE 8—Lease Commitments:** Certain of the property and equipment used in the Company's business is leased. Minimum rental payments for 1970 under lease agreements in effect as of December 31, 1969, exclusive of taxes and insurance payable by the Company, approximate \$20,482,000 for real estate leases and \$9,045,000 for equipment leases.

Real estate leases range generally from 15 to 20 years and equipment leases from 5 to 10 years. Future minimum annual rental payments for leases in effect at December 31, 1969, are approximately as follows for each year specified.

Year	Real estate	Equipment	Total
1974 . . . . .	\$ 16,221,000	\$ 4,585,000	\$ 20,806,000
1979 . . . . .	11,399,000	63,000	11,462,000
1984 . . . . .	7,717,000	—	7,717,000
1989 . . . . .	2,154,000	—	2,154,000
1994 . . . . .	365,000	—	365,000

**NOTE 9—Depreciation Policy:** Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining lives of the leases or the estimated useful lives of such assets, whichever is the shorter.

**NOTE 10—Income Taxes:** The provision for income taxes is summarized below:

Federal:	1969	1968
Current . . . . .	\$ 8,562,500	\$ 7,379,040
Deferred . . . . .	4,037,500	2,320,960
State . . . . .	900,000	550,000
	<u>\$ 13,500,000</u>	<u>\$ 10,250,000</u>

The 1968 statement has been reclassified to include state income taxes in income tax expense. Such taxes were previously classified with general and administrative expenses.

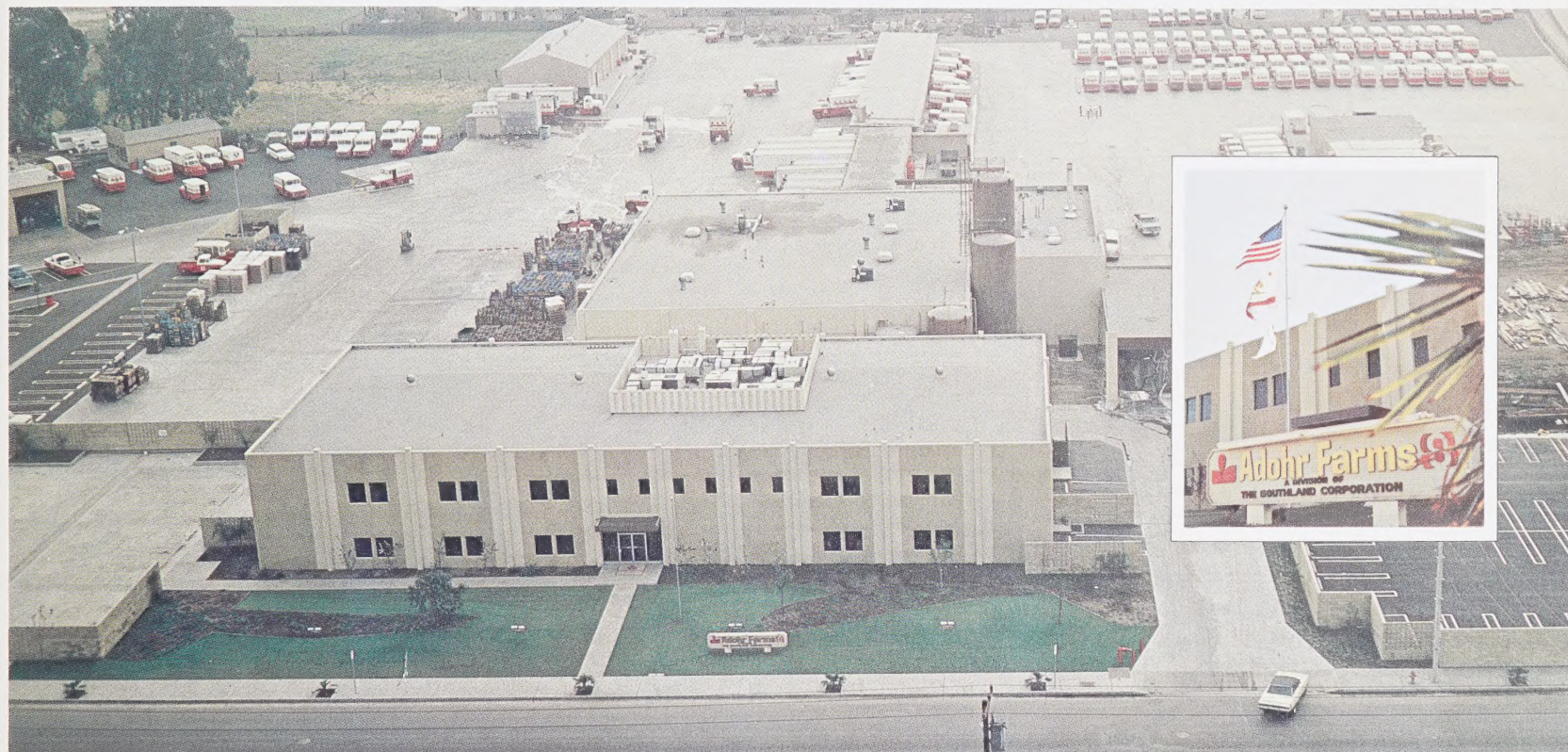
**NOTE 11—Earnings Per Share:** Primary earnings per share is based on average shares outstanding during the year adjusted for stock dividends and splits.

The earnings per share information, assuming full dilution, is based on the assumption that the convertible notes and debentures outstanding at December 31, 1969, had been converted into shares of common stock at the stated conversion rates at the earliest possible dates, that the related interest requirements had been eliminated and that outstanding stock options had been exercised.

**NOTE 12—Cost of Sales and Expenses:** Cost of sales and expenses are reported to the Securities and Exchange Commission in accordance with its regulations as follows:

Cost of goods sold, including buying and occupancy expenses. . . . .	\$648,499,336
Selling, general and administrative expenses . . . . .	145,033,909
Interest expense . . . . .	4,580,234
Contributions to employees' savings and profit-sharing fund. . . . .	2,795,490
	<u>\$800,908,969</u>





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